Testimony of Robert Robotti
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Thank you for the opportunity to testify before you today.

I was recently a member of the Securities and Exchange Commission's Advisory Committee on Smaller Public Companies and, as such, served as a member of its Corporate Governance and Disclosure Subcommittee. The SEC established the Advisory Committee to examine the impact of Sarbanes-Oxley and other aspects of the federal securities laws on smaller companies. Professionally, I am both the Founder and the Managing Member of an investment partnership (which SEC rules require me not to name) and the Founder and Portfolio Manager of Robotti & Company Advisors, LLC, an SEC registered investment advisor. Between these two entities, I direct the investment of slightly over $300 million, the vast majority of which is invested in small cap and micro cap companies.

I am also a director of Panhandle Royalty Company, a publicly-traded company with a $160 million market capitalization.

I am a member of Panhandle's Audit and Compensation Committees; as such, I am familiar with one company's travails with Sarbanes-Oxley's Section 404. I would point out that, as a board member, it is a logical predisposition to reduce one's potential personal liability by encouraging a company to overspend on Section 404 compliance.

I will be addressing you today primarily as an investor in small cap & micro cap companies, i.e. someone to whom the benefits of Sarbanes-Oxley are directed.

Let me start by describing our investment process. We are what is commonly characterized as bottom-up equity investors. Our stock selection process is based on the research and the evaluation of fundamental company data. Therefore, we are primarily interested in an issuer's annual audited reports as well as its interim financial statements which companies with securities registered with the SEC are required to publicly disclose. It goes without saying that the reliability of this data is paramount to our investment decisions. Once we invest, we think and act like owners. This includes continuously evaluating management and the board's oversight through assessing their capital allocation decisions. Again, both audited annual reports and interim financial statements are fundamental tools utilized in this investment process. Therefore, I am a proponent of expenditures of corporate time and money in producing such reports which benefit us, the investors and owners, by providing us with timely financial and other information about the issuer.

Let me point out that we know, from years of investment in public companies, managements and boards occasionally fail to act in shareholders' best interests or even fail to attempt to act in shareholders' best interests. To document our critical evaluation of managements and boards I can point to the fact that I, and entities that I direct, have been a named plaintiff numerous times in lawsuits against companies in which we have invested as a result of our efforts to protect shareholders' interests. So when the

management of our invested companies state “the cost and effort of compliance with Section 404 is disproportionate to its benefits,” I listen with healthy skepticism.

I think it’s important to point out that I strongly support the vast majority of the investor protections provided by Sarbanes-Oxley: the independence requirements for the audit committee, the restrictions on loans to insiders, the whistleblower provisions as well as the restriction on other services by independent auditors, etc. The vast majority of the law is a tremendous step forward for shareholders. There are costs, both hard and subtle, but my personal investing experience convinces me that there is a net benefit to shareholders. Support for these protections enumerated in SARBOX is documented in our Committee’s report to the S.E.C.

But then there is Section 404, where I believe some moderation with respect to its implementation would be practical. Conceptually, Section 404 compliance requires detailing, documenting and testing data pertinent to the reporting process. Realistically, Section 404 needs to be significantly right-sized. I further believe that the time and attention now required by top management of small cap companies to fully comply misappropriates shareholder value. This is substantially more relevant to smaller public companies than larger ones. For large caps, the time and effort required by Section 404 can be delegated to staff who are not charged with running the company. For smaller companies, senior management spends a substantial amount of time they could be running the business on compliance with Section 404. My perspective is based on my years of experiences, observations and evaluations of companies and their managements.

The misallocation of management's time and attention as well as the hard costs paid to outside auditors and consultants are not the only negatives. The costs associated with complying with Section 404 continue to motivate small companies, which do not plan on raising new capital to deregister or "go dark." When a company deregisters or "goes dark" -which any company can do in a relatively short period of time- it ceases to be required to make its annual financial statements and interim reports publicly available. It becomes in essence a private company with public shareholders. Since a vast portion of the universe of smaller companies has no capital raising plans the majority of these companies are candidates to "go dark." (It probably is the fiduciary duty of Boards of Directors and management to consider this option.)

Small cap companies that have deregistered and those planning on doing so have cited the high costs associated with complying with Section 404 of The Sarbanes-Oxley Act of 2002. The unintended consequence of some of the more extreme mandates set forth in Section 404 has been evidenced by the torrent of healthy, small cap companies that have chosen to voluntarily deregister or go-private. The GAO Report documents this fact, where it is estimated that 267 companies will have gone dark in 2005 compared to 143 in 2001. The report also points out that 5,971 companies currently registered with the SEC are non-accelerated fillers. More importantly, the report states that the vast majority of smaller public companies have yet to resolve this compliance dilemma, but the next year's compliance deadline approaches. It will certainly be interesting to see how the public and media react to a potential wave of deregistration or "going dark" transactions. I would ask are investors better served by exempting small companies from Section 404

compliance, or being set adrift owning shares in a company that no longer publicly reports its financials? Is this "investor protection?" Do we understand what "going dark" means? And who is affected? There is no exit provided to investors in a going dark transaction. This is unlike a going private transaction where shareholders are paid for their shares and can go to court if they think they have been paid an unfair amount. . After a company goes dark, shareholders lose the oversight of the SEC and the requirements of regular financial and information reporting. Shareholders are in large measure subject to the unilateral whim of management as to the disclosures they choose to release to the public. That is why it is referred to as "going dark." Again I ask, is this "investor protection?"

Investors in such companies pay a heavy price through generally lower stock prices. In most cases it is costly to shareholders both in the short term and very likely in the long term as well. The most immediate fact is that the shares will no longer be traded on regular securities markets but instead will trade in the "Pink Sheets." The normal effect of which is a lower market price for the shares. Then, with fewer disclosures, the shares often will trade lower yet. Investors in these companies will have none of the safeguards its shareholders had thought they would receive from SEC oversight and all the other protections enumerated in Sarbanes-Oxley. The SEC's mandate is to provide investor protection – so much for that! The long term effects of a deregistration can be even more onerous as investors' rights to information are extremely minimal in this environment. The only rights will be those provided by be the statutes of the company's State of Incorporation, and the company's charter documents. In most cases these rights are extremely limited and often require an investor to litigate against the company to actually

obtain information, a process few investors will undertake. The shareholders are now in "the dark" as to developments at their company.

I, as an investor, would gladly forgo the protections of Section 404 in return for having companies continue to publicly report their annual and interim financials.
I would further point out that the investor community, the lending community and even the auditing community appear to ascribe no value to Section 404 compliance.

I believe that equity investors in smaller public companies have registered their opinion minimizing any value from Section 404. Since the passage of Sarbanes-Oxley, small & micro cap companies have significantly outperformed their larger brethren who have implemented Section 404. Of course, there are many reasons why the market behaves in certain ways in the short term. It is not just this issue that investors consider but it is clear there has been no repricing and revaluation of those companies that have not yet implemented 404. (The same cannot be said for those companies that have gone "dark," the securities of which have generally declined in value.) If investors ascribed value to the Section 404 compliance the prices of companies which have not yet complied with Section 404 should have declined to reflect this heightened risk to investors. That has not occurred.

As for the lending community, if they believed there was significant value in Section 404 compliance one would expect that lenders would require voluntary early implementation as a prerequisite to credit extensions. I have not had the management of any of our

investee companies indicate to us that such a demand had been made by their lenders and have not seen any such companies Section 404 compliance prior to when required.

The lending community has provided us with an example by which we can assess the merits of the requirements prescribed in Section 404. As such, it has become evident to us, based on the companies in which we have invested, that neither the cost of capital nor the availability of additional financing has been impacted by lack of Section404 compliance.

Finally, for a number of our companies which have not yet been required to implement Section 404, the Big 4 accounting firms continue to issue audit reports even though these companies are higher risks, as they have not implemented Section 404.

In conclusion, I believe the research process starts with an appraisal of a firm's financial statements and an assessment of the analogous investment risks. The disproportionate distribution of costs associated with Section 404 compliance on smaller companies will force many of such firms to deregister and de-list, thereby leaving investors with less information upon which to make investment decisions and fewer investment opportunities. Furthermore, Section 404 is not a panacea. The growth of the population of deregistered stocks will surely create new issues. When these unintended consequences are considered, it becomes quite clear that moderating the requirements of Section 404 is sensible legislating.

About Robert E. Robotti:

Robert E. Robotti is President of Robotti & Company, LLC, a registered broker-dealer and President of Robotti & Company Advisors, LLC, a registered investment advisor. Bob is a Managing Member of Ravenswood Management Company, LLC, which serves as the General Partner of two investment partnerships. Prior to forming Robotti & Company in 1983, he was vice president and shareholder of Gabelli & Company, Inc.

He is a Certified Public Accountant and served in public accounting roles before coming to Wall Street. Bob holds a B.S. from Bucknell University and an M.B.A. in Accounting from Pace University.

For over twenty years, Bob has focused his research and investments on finding undervalued and out-of-favor micro, small and mid cap value stocks. He has successfully applied a long-term, contrarian approach to uncover value stocks before the general market recognizes them. Some of Bob's areas of coverage include the Energy Industry, the Insurance Industry and Special Situations such as Spin-offs, Rights Offerings, de-listings and De-Registrations.

Bob currently serves on the Board of Directors of Panhandle Royalty Company (Amex: PHX). He is a member of the Audit and Compensation Committees for the company. Panhandle Royalty Company, located in Oklahoma City, is a diversified mineral holding company engaged in the acquisition, ownership, management and development of its fee minerals.

He has recently joined the Board of Directors of Bishop Capital Corporation, a Wyoming based company that engages in the development and sale of real estate properties.

Bob was recently a member of the S.E.C. Advisory Committee on Smaller Public Companies. The SEC established the advisory committee to examine the impact of Sarbanes-Oxley Act and other aspects of the federal securities laws on smaller companies. Over the years, Bob's research and opinions have been sought out and quoted by media outlets such as Barron's, Bloomberg, Dow Jones and MSNBC among others.

He is a member of the New York Society of Security Analysts, serves as a Director and is the Treasurer of the Variety Boys and Girls Club of Queens and is a member of the Board of Trustees of Xavier High School.